

All hands on deck as Singapore tackles Covid-19 and economic challenges

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ROUNDTABLE PANELLISTS:

- Heng Swee Keat, Deputy Prime Minister and Finance Minister
- Linus Goh, head of global commercial banking, OCBC Bank
- Toby Koh, managing director, Ademco Security Group
- Faizal Yahya, senior research fellow at the Institute of Policy Studies
- Moderator: Vikram Khanna, associate editor, The Straits Times

This is an edited excerpt of the roundtable.

Vikram Khanna: I think on top of the agenda are two shocks that we have recently faced. One is Covid-19 and the other is the resulting economic and financial stresses that we are beginning to see. Can we have a broad assessment of the impact of these developments on Singapore currently and going forward, DPM?

Heng Swee Keat: Before the outbreak of the coronavirus, the global economy was already slowing because of the trade tensions between the US and China. In the three weeks since I unveiled the Budget, the developments globally have been more negative for the economy as well as for the outbreak of the virus.

So, first, if you look at the outbreak, it seems to be going in waves. You have the first wave that hit China and Singapore and a few countries very quickly. But the outbreak is also spreading to other countries. You are seeing it in all our major partners and in all the major economies. And we don't know how this wave will move.

That in turn is triggering concerns in the global financial markets. Uncertainty has grown significantly and sentiments have fallen. That in turn is affecting investments, affecting consumption, and affecting linkages across economies.

So you have these two major negatives coming together at the same time, interacting in ways that are quite difficult to predict. Compared to three weeks ago when we were doing the Budget, I think the situation today is worse. And that is the reason why since about 10 days ago, we have started working on the need for a second package to stabilise our economy and to emerge stronger from this. In fact, I just had a discussion with Prime Minister yesterday on the key measures that we will need in this package. My colleagues and I are working very hard together with the ministries on what else we need to do.

Mr Khanna: Could I get a sense on whether you think there is a likelihood of a global recession, and how deep it will be?

Mr Heng: Well, the global economic growth will come down. The global economy is much more integrated today than it was during the period of Sars. The global supply chain is also much more integrated than before. So sectors like aviation, tourism and food and beverage and retail were the first wave to be hit most directly.

But because the global supply chain is integrated, this is also affecting the supply of key components across the different economies. And I think this is going to have ripple effects on the manufacturing sector as well.

Linus Goh: We have over the past five, six weeks been actively reaching out to the SMEs. And you're right absolutely that what started very narrow in the travel and tourism sectors has expanded very quickly into all the other industries. The manufacturers are also feeling the strain because of the disruptions to the supply chain. And it's also now becoming a question of weakness in demand. So while they may solve the supply chain issues by looking at alternate sides, the reality is demand has also come off. So it is now going broader and going deeper.

Faizal Yahya: We just had a roundtable with small companies. From their point of view, they were already badly hit because of trade tensions before Covid-19. So the message would be: whatever you're doing now, just like the rental waivers, wage support, tax support, rebates, please do more. It was mentioned by the government that this downtime can be used for training, automation and so forth. They would like to see more of that kind of strategy. But at the same time, do help them to survive.

Mr Heng: You raised two very important points. First is how we can come together to not just survive, but to prepare for the upturn. And on that point, the government must do our part. But I will urge all businesses to each do their part. It is important for landlords to take action to help, because if the shops remain viable in the long run, everybody benefits. So whether it's landlords and tenants, whether it's banks and your clients, there will be small businesses in particular which are viable, and we need to support them as fully as possible. Your second point is that not only should we work together, but we should look at what's ahead, and in particular, how do we use this downtime to prepare for the upturn.

Mr Khanna: DPM, you had mentioned that you're exploring a second package. Can you share something about what it would be?

Mr Heng: I mentioned that we should aim to emerge stronger, and there are several areas in which I think that this outbreak shows us the needs of the global economy. If we can be first off the block to innovate, we can respond to this new situation very dynamically and come up with innovations that will meet the needs of Singapore, but also the world.

So, in terms of the support measures, our topmost concern is our workers. If our workers can keep their jobs, then consumption can resume and life can take place as normally as possible.

Two, how can we support our small and medium enterprises to make use of this downtime to really strengthen their capability and at the same time tide over immediate short-term difficulties. For that, we need to work together with the banks, with the key partners, with our trade associations and chambers.

The other aspect is after the outbreak, there are many more people who have been self-employed, and they are now having difficulties. So we are looking at how we can provide some support. We have to rethink this whole model to look at how we can strengthen it better, so that when you have a downturn like this, how can they be better protected?

In particular, how can they be ready for the upturn, because the need for training, the need for upgrading, the need to use technology better may not be obvious to them individually. But if we

can bring them together, then I think everybody will have a better sense of their common needs, and we can then look at how we can have more innovative solutions to meet these needs.

Mr Khanna: Linus, could you tell us about how OCBC Bank is dealing with the stresses that you're seeing in clients?

Mr Goh: In February, we announced our own package of tailored support for our customers, both individuals and businesses, and that support was around having some flexibility in the existing commitments.

I think for the SMEs particularly, we have seen quite a number who have been impacted by the disruptions in the global supply chain. So therefore, they might request for their trade bills and invoice financing to have a longer term, to account for the delays. There have also been customers who have sought additional working capital or bridging loans.

We're very happy with the announcement of the enhanced working capital financing loans. The outreach to our SME customers has so far come back with quite positive reaction to those schemes, so the uptake I think will start to grow quite quickly over the next few weeks.

But I think the question now is, if it goes deeper and broader, then how can that support be enhanced to be relevant not only for the travel and tourism type sectors, but also to the broader economy? There are many who have raised the question of a bridging loan more akin to what we had launched in the global financial crisis.

Mr Heng: In terms of dealing with the uncertainty, there are various measures that we can consider and explore. Bridging loan is one of them. I would suggest that we look at more broadly, how we can have some structural solutions.

During the global financial crisis, trade dried up not because there was no demand, but because trade finance and trade insurance dried up. And this was because there was a lack of confidence in both parties. But today with the digital technology and digital payment system, in fact, you can have some assurance.

For us, we have started our networked trade platforms. We should work together to see how we can facilitate this flow, so that trade finance and trade insurance should be done very differently. Our banking system should be much more digital, and I hope that all our banks come on board this movement, work together with us on our networked trade platform to look at how we can finance.

Mr Khanna: Faizal and Toby, if you could give us your wishlist on what you would like to see in terms of additional measures?

Toby Koh: There are a lot of SMEs who are still very healthy, who actually still like to hire but they are holding back. Perhaps maybe in the enhanced Budget to have wage sharing or wage support for any new headcount that these companies are going to bring on board, that will encourage strong, healthy SMEs to start hiring right now, because there's going to be talent out in the market.

The second thing would be that a lot of the SME business owners that I've spoken to are very concerned about cash flow. So something to ease the cash flow so that they're able to go out there and continue the business, keep the headcount without having to disrupt their operations.

Mr Heng: That's a very good point in terms of how hiring can continue. In the Budget, there is a special programme for hiring of those between 40 and 60, and also enhanced credit for SkillsFuture training, enhanced programmes. I hope that companies that are looking at the long term will take this opportunity to hire, and in particular for this group in the 40s to 60s, many of whom may have been displaced from existing jobs.

Dr Faizal: Can the government work with the banks to bring down interest rate charges? In terms of the employment side, something like absentee payroll. For the five targeted sectors in the Budget, what more can be done for those and other sectors?

Mr Heng: We will have to take both a targeted and a broad-based approach. When we say that our priority is supporting workers, the economy is very interlinked. So if workers are able to keep their jobs, they will continue with their consumption and that in turn flows into the shops. There are also other measures like the SG Clean campaign. So it is not just one or two measures, but putting these different measures together to instil confidence, but at the same time maintaining vigilance.

As to your question about interest rates, absentee payroll, the package that we have rolled out for the 40s to 60s has a strong element of this. If there's a need for us to consider particular groups, we will consider. But at this stage, I think let's make the best use of what is available.

Mr Khanna: Why are SMEs being charged such high interest rates?

Mr Goh: I think the reality is global interest rates are coming off. The central banks are responding to what is a weakening global demand issue.

Mr Heng: But can the banks do more? If the banks can come and work together to lower the risk either of the entire industry or a specific company, then if you take a risk-based approach, the interest rates can then be calibrated according to that. I'd suggest perhaps our banks can work together with, let's say, the Association of SMEs and do some online training for our SMEs to talk about what do we mean by a risk-based approach, and what is it that each SME can do and the trade associations can do to lower the risk.

Mr Khanna: I think the emphasis seems to be to prevent retrenchments as much as possible. All that said, we might be in for a long crisis. If there are retrenchments, what measures can the government come up with to give relief to retrenched workers?

Mr Heng: Our approach is, first and foremost, to prevent retrenchments. Not just for the sake of the workers, but also that I think the companies must take a long view. The reason why we have the Job Support Scheme is that if companies face an immediate short-term challenge and start retrenching, they would also be reducing their own capabilities and it will make any upturn a lot harder for them. So that is the first priority.

The second is that if the companies indeed found that the business model is no longer viable, then I think releasing those workers to new industries that are growing will be important. Now as for workers who are then retrenched, we're looking at specific measures that may help them.

Mr Khanna: You had also mentioned that companies should make the most out of what is available. But I think a lot of people make the point that the problem is not the shortage of schemes, the problem is that these schemes are not being used sufficiently. And, I think Faizal, you had an

article where you said that SMEs are running into bureaucratic obstacles in getting access to some of these schemes. Could you elaborate on what kind of obstacles they're facing?

Dr Faizal: Their feedback is that the process of approval and assessment is far too long and you miss that window of opportunity. In going digital, the awareness is great but the uptake is a problem because they have not assessed the health and the complexity of their own processes. So if they just jump on the bandwagon and get a technology or a gadget that's expensive, it becomes a white elephant without the human capital or the leadership to see it through the transformation.

Mr Heng: That's a very good point and that is why as part of the Committee on the Future Economy's work, we started these 23 industry transformation maps. Not only do we bring the industry together and to solve common challenges, but we solve the challenges in an integrated way, in a company-centric way, rather than our former approach which is agency-centric. We will need to review many of our processes, and I'll be happy to receive feedback on how this can be done. But, at the same time, I want to caution that as a public sector, we also want to have proper accountability for the spending of public funds.

It's also important for us to raise our management capability across companies. One reason why we have the Enterprise Leadership Transformation Programme to raise the leadership capabilities of many of our companies is precisely for that purpose, because the leader of the company must have that more strategic view and be more creative at problem solving and in bringing together the team.

Mr Khanna: Toby, your company Ademco received an award a few months ago on enterprise transformation. Can you explain how your enterprise transformation has helped you with dealing with, for example, the Covid-19 situation?

Mr Koh: The transformation is two-fold. Number one would be internal. We went cloud very, very early. It's proven to increase our process, speed up our process, enable our service delivery a lot faster. In a case like the Covid-19 right now, every single one of my team can work from home. The second part of it would be external - how do we use the transformation to help us to transform our customers' workflow and work process in order to give them better value and efficiency? And case in point would be OCBC. We monitor right now over 500 OCBC sites across the island. In the past, when something happens in one of the locations, they would send a security officer all the way out to that site. But there isn't that requirement anymore because everything can be done remotely.

But that took a lot of conviction from the OCBC team to say, "Hey, what Ademco has said made sense and we should transform our process." And that's a lot of work, but the benefit that they got out of it was they reduced their risk because within a minute or two, with eyes on site, we're able to do a risk assessment remotely and see whether there's somebody trying to break in. Next, save money, reduce the cost. Third, there was operational productivity.

Mr Heng: You touched on two very interesting points. First, your own company's transformation where you got your staff to work remotely, and that in turn now allows you to work remotely even with Covid-19 and it doesn't quite affect your operation. I think there is a lot of scope for us to rethink this aspect of work. Do you absolutely have to come to a physical location or can you work remotely?

Second is your story about how you partner OCBC in this journey. It is not just the smart supplier that produces smart solutions, but you also need a smart buyer who's prepared to say, yes, I'm prepared to review the processes. Innovations like this cannot take place unless everyone has the mindset that I want to do something better and I'm prepared to try, to experiment, to see how well it works. To have that innovative mindset, to make innovation pervasive in our economy is a critical part of our longer term transformation.

Mr Khanna: Are there any additional revenue measures that the Government is considering? Would you, for example, draw on reserves? Would you increase the contribution of net investment returns?

Mr Heng: In terms of structural taxes, we are looking at it from a long-term planning point of view. But given the state of the economy today, our priority is on supporting the economy. So you raised about whether we are likely to touch on past reserves. This is an option that we are looking at very carefully. Our reserves have been set aside to meet the needs of a rainy day. It looks like this rain is not a light one, so we'll have to look at what we need to do in this. But as part of our process, I cannot touch on this until I have the approval of the President and the Council of Presidential Advisers. I will say that I'm glad that we have, in this term of government, a sufficient and sizeable amount of current reserves. But still, I'm not ruling out the use of past reserves. We will have to discuss this very carefully as we did during the global financial crisis.

Mr Khanna: Do you have any thoughts on the revenue side, Faizal?

Dr Faizal: Any increase in taxation is definitely going to be not good for businesses. In fact, they're asking for more rebates. I think probably more needs to be done as well to try and save companies that actually were doing quite well, and then this Covid-19 happened and now they actually might go under.

Mr Heng: I would like to make a request for to all our businesses. The need for us to have some precautionary savings as individuals, as a business, as a country, applies throughout. So it's very important for us to each have some buffer and emerge stronger.

Mr Khanna: How do you compare this crisis with, for example, the global financial crisis or the Asian crisis?

Mr Heng: What is similar is that there has been a sharp drop of confidence, the disruption to the global economy has been significant. But during the global crisis, it was a crisis of confidence in the financial system, as a result of which the impact was largely through financial channels. In this instance, we are dealing with two problems at the same time: this virus outbreak and the economic scenario. Unlike the global financial crisis, you are now dependent on the containment of the outbreak and not just a pure economic engine. The other major factor is how will the US-China trade conflict and technology conflict and the broader strategic competition be reshaped by this outbreak.

Dr Faizal: What can be done to have a more coordinated global response in terms of trying to manage this Covid-19 issue?

Mr Heng: I would say the global responses have to be done by global institutions at different levels and for different facets of the economy. One, the WHO will need to play a critical role. I think it's very important for all of us to cooperate with WHO to provide up-to-date information. And, in turn,

we should look at how testing facilities can be better done and that there is a set of minimum responses which all countries ought to have.

Second, global central banks will also need to coordinate the policies, particularly on monetary policy. And within the region, Asean+3, we can coordinate some of these responses both to the outbreak as well as to the economic situation and financial situation. And of course, global institutions like the IMF and World Bank must play a key role in this.

Mr Khanna: There is one question, DPM, I must ask. I think a lot of people want to know, how is the Covid-19 going to affect the election timetable?

Mr Heng: First and foremost, at this very moment, we're very focused on (a) containing the outbreak; and (b) managing its impact on our economy. But the elections have to be called before April 2021, so we cannot deviate from that. And what we must do is to create the conditions that will allow us to manage the situation to the best of our ability. I'm afraid that the management's attention that we need to deal with this will get more challenged in the months ahead because the situation is so fluid, so dynamic. The best case scenario will be that it reverts to normalcy much faster, but I don't think we should plan on the basis of hoping for the best. We need to be prepared for the worst. So I hope that we will have the conditions to allow us to do that. That will be a major factor in deciding on when we call for the election.